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# International Cartels

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INTERNATIONAL CARTELS

A Thesis

Submitted in partial fulfillment of the  
requirements for department honors.

by

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June 13, 1946

Jane Reifsnyder

The State of the Nation is good.  
The Heart of the Nation is sound.  
The Spirit of the Nation is strong.  
The Faith of the Nation is eternal.

Franklin D. Roosevelt  
January 7, 1942.

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## INTERNATIONAL CARTELS

International cartels will be a major factor in the forthcoming peace. Everyone interested in economics is wondering just how far the governments of the Allied countries will push government cartels, such as those that existed before the war in rubber and oil.

Before I discuss the past and future indications of cartels I would like to give a definition of the term. A "cartel" is defined by the League of Nations as "an association of independent undertakings towards improving conditions of production and sales". This is an adequate definition, but to this we may ask, "Who profits by these improvements?" To this the answer is obvious. We know that one of the objects of the cartel is to restrict competition. It is through competition that the public receives better and lower cost products, so restriction of competition does the common consumer no good.<sup>1</sup>

Cartels not only make closed markets of competitors here in the United States, but they keep out foreign competition. They assume and exercise power that should be trusted only to the governments. By making agreements not to trade in certain areas and to exclude foreign competition from this country, they can nullify tariff policies. Cartels can and do defeat governmental efforts to promote foreign trade. While our official representatives abroad seek to promote the exchange of goods, secret private agreements between cartels decide that this exchange shall not take place.<sup>2</sup>

A government controls cartels by arrangements under the direction or with the sanction of the government having jurisdiction over such enterprises and it usually contains provisions for the enforcement of the arrangement.

1. J. Howard Pew, Cartels Threatening Economic Progress, (Boston, 1940), pg. 106
2. Howard S. Curry, Cartels of the World, (New York, 1939), pg. 142

According to Wendell Berge, Assistant Attorney General of the United States, "Cartels can only operate efficiently in the international realm if they exist under a system of national monopolies or monopoly groups in industry."<sup>3</sup>

As cartels grow more and more powerful, these international monopolies tend to assume the role of government. Then one of two things can happen. Either the government lets them alone and they become the government on tariff problems, or the government keeps an active control on the cartels so they can't become too powerful.

As a background for further discussion, it seems best to give a review of cartels in our history. The struggle against monopolies began with the American Revolution, which in its economic aspects was a revolt against monopoly, and continued intermittently during the 17th century. Primarily, our early efforts to keep the market free were carried on by the states themselves. The development of the frontier and the settlement of the West often obscured the effects of monopoly and thereby diverted attention from the need to combat it. As long as opportunity could always be found in the opening up of new areas, it was difficult for monopoly to fasten its grip upon the economy. When the geographic frontier closed, however, it became evident that the continued concentration of economic power threatened to eclipse enterprise. Consequently, during the last year of the 19th century there arose a mighty fight against the trusts which resulted in the passage of the Sherman Act. The Sherman Act is the expression of a fundamental opposition to the domination of industry by monopoly groups and to the control of opportunity by economic privilege. Nevertheless, we know that the trend to concentration in industry and the increase of economic power in the hands of privileged groups continued despite the efforts of government and the opposition of the majority of the people.

3. Wendell Berge, Cartels and American Economic Life, (Boston, 1945), pg. 13



During the years from 1914 to 1918 the process of the monopolization of economic life was abetted by the conditions and demands of a war economy. In the return to normalcy, efforts to restrict monopoly power were further relaxed, and in the boom era of the 20's there was little concern with the monopoly problem. The enforcement of the Sherman Act was more nominal than real. Size became a symbol of efficiency in industry. The formation of mergers and combines, the development of patent pools and the elimination of small scale enterprises were accepted almost as a part of the nature of things. Both in the United States and throughout the world cartels were able to entrench themselves because there was little understanding of their effects. During this period the cartelization of world industry reached a peak. Monopoly had become international in scope. In many aspects, therefore, the cartel problem which has plagued us during the present war is a heritage from the 20's. In large part, the great depression was the result of cartels being able to impose a policy of restricted output and high price.<sup>4</sup>

In this mirror of recent history we can see clearly the sequence of errors which frustrated victory in 1918, making the Armistice an interval and in the end destroying peace once more. By failing to come to grips with the fundamental maladjustments in the world economy at that time, or to displace an economic philosophy of restriction by progressive collaboration toward equity and freedom in trade, the Allies in 1918 forfeited their chance to revamp and to liberate the world market. By substituting political formulae for economic solutions, they sought to evade the problems of an industrial society on a quandary. As a consequence, the major powers reverted to a system which seems to me a little like the Middle Ages, with economic moats and walls in the form of exclusion tariffs and quotas blocking the

4. Wendell Berge, What Substitute for Private International Cartels, (Washington, 1945), pg. 4



channels of exchange.

In an address to the Washington Club in January, 1945, Wendell Berge stated, "There is undoubtedly a movement on foot to persuade us that we must keep cartels and try to eliminate their bad features - as if there would be anything left of them if this could be done. This movement to save cartels has as its immediate objective giving cartel arrangements immunity from prosecution under the anti-trust laws. Its strategy has already become clear and has been indicated by testimony of cartel spokesmen before Senate Committees, in proposals to amend the anti-trust laws circulated by certain business groups, and in writings of certain persons whose names give a covering of liberalism to the proposals".<sup>5</sup>

Milo Perkins, former Executive Director of the Economic Warfare Board, once wrote, "Where we cannot eliminate cartels, we must gradually perfect ways to make them into instruments which serve the public interest." But at the beginning of the article, emphasized by italic type, Mr. Perkins stated, "All cartels are in business to keep prices at levels which could not be kept if free competition existed". In other words, Mr. Perkins in one breath asserts that cartels are devices for fooling the public, and in the next breath asserts that such devices can be made to serve the public interest.<sup>6</sup>

It is believed by these men that we must have cartels if we want to compete in international trade with foreign countries who have cartels.

Although it is possible to separate our domestic scene from the international picture, it must be kept in mind that in practice the two phases of our economic life are inseparably blended and mutually conditioned. Thus, in attaining high levels of employment, production, and national income we cannot neglect the stimulation of international trade.

5. Wendell Berge, The Challenge of Cartels, (Washington, 1945)

6. J. Howard Pew, pg. 112

In either the domestic or international field, when a cartel exists the following results occur:

1. They seek to consolidate industrial power by destroying existing independent enterprise.
2. They prevent new enterprises from entering the field.
3. Having accomplished these objectives, they restrict production and raise prices.
4. They stop the introduction of new and more efficient methods in order to maintain absolute ways of production in the continuance of which they have a vested interest.
5. They set up arbitrary and despotic control over production and exploit weaker members of their own group.
6. They enter politics using money and economic coercion, making alliances with other powerful groups against the interests of consumers and independent producers.
7. They form their own protective tariffs and make foreign economic policies for the nation.<sup>7</sup>

The economic theory on which cartels operate is the doctrine of scarcity for the many and privilege for the few. Cartels believe in unlimited authority for themselves, but oppose opportunity for new enterprise. They fear competition and they fear change. They employ every recourse to destroy freedom of the market and they exert all possible means to control or to suppress technological development.

No amount of earnest desire on the part of publicly constituted authority to foster international cooperation and to raise standards of living through trade can be successful if cartels are permitted to divide and rule basic world industries.

7. Thurman W. Arnold, Cartels or Free Enterprise?, pg. 103



### The German Cartel

We have now come to recognize that long before Germany launched its campaign for world domination, German industry, operating through cartels and playing upon the fears of industrialists in other countries, had laid the foundations for aggression. By ruthless and hidden measures of economic warfare, by secret agreements which restricted the production of vital materials, Germany's cartel system had achieved economic conquests which were stepping stones in the direction of ultimate military domination. To monopoly-minded business men in the United States and Great Britain cartel agreements made with German industries were devices for achieving economic stability, eliminating competition, and safeguarding an entrenched position. Monopolies which desired to eliminate all competition in domestic markets were susceptible to offers of a protected market at home even though it meant giving up all or part of their shares in world trade. As a consequence, whole continents were handed over to German industry to be exploited economically and infiltrated politically. New industries which threatened existing investment were throttled and vital sectors of economic development were not permitted to grow. To German industry cartel agreements were a method by which the markets of the world could be divided and by which the German nation could hope for a decisive superiority in the sinews of war.

There are definite indications that some outstanding industries in European countries have joined German cartels, which, in the event that Germany had won the war, would have become Continental European Cartels. The scope of these cartels ranged from iron and steel all the way down to zippers.

In order to evaluate the significance and implications of this expanded German cartelization policy, it is essential to take into consideration the changes that have taken place in the position of



the German cartels under the National Socialist regime.

Under conditions of relatively free competition, the German cartels were allowed to perform their chief function of elementing or regulating competition with comparatively little interference from the government. The cartels were recognized as an integral part of the economic structure of the country and much weight was attached by the government to the claim of the chief exponents of cartelization that, under modern conditions of capital investments and high fixed costs, a country like Germany could not afford to subject its important industries to the wide price fluctuations that would take place without the stabilizing influence of the cartel.

The legal restraints on cartels interfered very little with their activity and were merely aimed at abuses. Far from being opposed to cartelization, the German government on a number of occasions, long before the comprehensive compulsory cartelization law of July 15, 1933, intervened to compel industries to renew a cartel agreement. The Cartel Ordinance of 1923, which also established the cartel court, merely placed cartels on a more formal basis and gave the government power of dissolution in cases where cartels were found "to be detrimental to public interest", though restriction of economic freedom by the Cartel Court was confined largely to dealing with cases between the cartels and their members who desired to withdraw or had actually withdrawn or refused to comply with the cartel regulations.

The cartel decree of July 26, 1930, represents a more direct attack on the cartel price policy, and was based on the assumption that the cartels were responsible for the failure of the price level to adjust itself to the reduced purchasing power of the country. This decree gave the government the power to invalidate price-fixing agreements when they operated to the prejudice of production or distribution or interfered with economic freedom to a degree that could not be justified economically.



The enforcement of the new decree was placed in the hands of the Minister of National Economy, who could act without the intervention of the Cartel Court.<sup>8</sup>

Despite the sporadic intervention of the government in cartel matters and the potential regulating power of the State, it may be said that prior to the advent of the National Socialist regime, the German cartel was primarily an organization for carrying out the economic policies of private interests.

The fundamental economic policies of the National Socialist regime, directed toward State control of the national economy, economic stabilization and full utilization of the productive resources, were in conflict with some of the essential functions of the cartels and finally succeeded in understanding the whole cartel structure as a private institution.

Theoretically, the compulsory cartelization law of July 15, 1933, by which the Minister of National Economy was given the power to compel individual producers to join an existing cartel, strengthened the position of the German cartel by making it possible for the cartelized part of an industry to obtain assistance of the government in getting rid of the troublesome outsider.

One of the provisions gave the Ministry of National Economy the power to restrict the expansion of utilization of industrial facilities in the interest of the branch of production involved, and with due regard to public welfare. This power gave the government the means for regulating production, which was formerly exercised by the cartels and other forms of economic concentration. Another provision made more definite the powers of the Minister of National Economy to dissolve cartels or cartel provisions without recourse to the Cartel Court.

By introducing comprehensive price control, rationing of raw materials and other supplies, controlling foreign trade, foreign exchange, and

8. Louis Domeratsky, German Cartels - Their Evolution Under War Conditions, (Washington, 1943), pg. 1



the capital market, and extending the field of direct government participation in industry, the government deprived the cartels of many of their essential functions and of a considerable part of their influence.

The German cartel was due for a change which would have taken place, probably in a more evolutionary form, without the advent of the Nazi regime. Considering the German political psychology and economic background, it is safe to assume that the solution would have been found along the line of greater intervention on the part of the State. The fact that the Weimar Republic was not sufficiently strong, or perhaps was incapable of using its political strength to intervene effectively in the cartel situation, does not necessarily mean that effective State intervention could have been held off indefinitely.<sup>9</sup>

The Nazi regime, with rearmament as the central objective, approached the cartel problem from the standpoint of the organization of the national economy for the greatest impact of the cartel on the consumer. To the new government, the cartel and other forms of economic concentration appealed as instruments to be utilized as extensions of the government's power to control the national economy for the new political objective. In the process of becoming such an instrument, the cartel soon lost its capacity for influencing the market for the benefit of the participating producers or distributors, but also most of its functions connected with the control of supply. This happened because the State, in its efforts to gain control over the economy, took over, one by one, the functions of controlling prices, supplies, foreign trade, wages, interest rates, capital market, and direction of investments.<sup>10</sup>

The cartels, instead of limiting production and controlling prices, were ordered to help in utilizing the full production capacity of its membership by converting, if they involved essential industries, or by

9. Louis Domeratsky, German Cartels - Their Evolution Under War Conditions, (Washington, 1943), pg. 8

10. "New German Cartel Policy", November 1, 1933



curtailing or even closing down plants if they produced non-essential consumer goods. A cartel, the chief function of which is to regulate production so as to prevent bothersome competition, cannot find any legitimate reason for existence when the demand far outstrips supplies and when the production facilities are strained to the utmost under the watchful eye of a totalitarian state. Under those circumstances any attempt on the part of a cartel to carry out its traditional policy would be regarded by the Nazi government as treasonable and severely punishable.

In addition to losing practically all its economic functions under the war economy, the German cartel has been put under such rigid control that it has lost practically all freedom of action. The price control, as mentioned above, has been taken away by the Government Price Commissioner. Ever since 1934 all existing price control arrangements of cartels have been subject to the approval of the Minister of National Economy. The cartel has been deprived of the right to fix quotas or divide up territories and markets.<sup>11</sup>

Under the Gemeinschaftswerke Law of September 4, 1939, industrial organizations can be created that can compel their members to expand or close down, to apply certain processes of production, and the like.

By the decree of October 20, 1942, the powers of the Minister of National Economy over all forms of marketing organization were extended to include any organization or part thereof that may influence the market. Under this decree the Minister of National Economy can make the formation of any such organization subject to his approval, can dissolve, or combine existing organizations, can forbid the managers and other officers to engage in activities connected with marketing organizations and can change the regulations governing them. President Kehrl (in charge of Reichsvereinigungen) announced that of the twenty-two thousand cartels only about five hundred were likely to survive. It should be pointed out,

11. "Price Control in Germany - Policy and Technique", April 1944



however, that in view of the great concentration in German industry the new organizations which are replacing the cartel do not necessarily involve a change in personal power. Many of the big business men in leading industrial organizations prior to the outbreak of the war, or even before the advent of the Nazi regime, are still in prominent positions in the present alignment.<sup>12</sup>

While the cartel has not entirely disappeared, despite the loss of its main functions and the very considerable decrease in numbers, new forms of organization, better adapted to the new circumstances, have come into existence. The outstanding feature of the new organization is its variety and frequent regrouping, which would seem to indicate its more or less experimental character and perhaps also the strain under which the German economic planners are now working.

While the full extent of the activity of the German cartels in consolidating the industries of the occupied and dominated countries cannot be ascertained for obvious reasons, it is quite evident from what has already been announced that the work is proceeding at a rapid rate. In this connection it should be pointed out that in some of the annexed territories, especially in the Protectorate of Bohemia and Moravia to which the compulsory cartel law was extended at the beginning of 1940, a good deal of the work of consolidating the local with the corresponding German industries has been accomplished by the acquisition of financial control.

In estimating the progress of the German cartelization drive in the occupied countries, allowance should be made for the incompleteness of the information available. Taking into consideration the conditions under which the centralization policy has been carried on, it is safe to state the German cartel, as modified under the National Socialist regime, played an important part in the building up of the Continental European economic bloc, which was the avowed aim of the National Socialist government of Germany.<sup>13</sup>

12. Louis Domeratsky, The German Cartel as an Instrument of Economic Control of the European Continent, (Washington, 1941), pg. 1

13. Ibid, pg. 4



## CARTELS IN OTHER COUNTRIES

One of the chief sources of friction between the United States and Great Britain has been plans restricting production in the interests of producers. Many of these plans have governmental support. Some countries play parts of a producer and others play parts of a consumer. Then the question becomes one of monopolistic restriction.

The United States is interested in restoring free trade and free competition and that's the way our legislation tends to lead. Great Britain, on the other hand, tends to go in the opposite direction. One reason is that Britain's Labor Movement reached its strength before the United States' and the former took an active part in politics with a Socialist point of view. Socialism holds that combination in business is inevitable under capitalism and the government's place is to assume ownership and control in the interest of the public. The British see the evils of monopolies, but they don't like competition, so they have complete or partial government ownership of industries.<sup>14</sup>

We all know something about the United Organization, but do we know anything about the other organizations of Nations provided by international cartels?

A cartel within the limits of the United States is illegal, but in a streamlined form it now operates internationally.

Corwin D. Edwards, of the Department of Justice, prepared the following classification for the Senate Military Affairs Committee.

1. The Association - uses restriction of competition by means of a trade agreement. They adopt rules and regulations to fix prices, limit or apportion output, allocate territory, redistribute profits according to a formula. This is the most venerable kind of cartel, since unless its agreements

14. George Saule, America's Stake in Britain's Future, (New York, 1945), pp. 169-172



are enforceable under the law, the members can break it at any time. This type is illegal in the United States and is more prevalent in Europe.

2. Patent-Licensing Agreement - Due to the rapid advances of manufacturing processes in the modern world, many important processes are patented. When the basic patents are about to run out, an improvement, real or artificial, is invented for the purpose of retaining control. Agreements between patent holders are made up so that patents may be shared and still keep a control on prices and output. For instance, Mr. Edwards points out that before the war "there were comprehensive patents and processes agreements between duPont and Imperial Chemical Industries (of Great Britain) and between I. G. Farbenindustrie and Standard Oil Company of New Jersey. There was a gentleman's agreement between duPont and I. G. Farbenindustrie by which each was to get from the other first option on new processes and products not already promised to a third party. There was apparently a comprehensive working agreement and certainly a series of working arrangements as to specific products between Imperial Chemical Industries and I. G. Farbenindustrie. Around this central pattern were grouped various lesser alliances among other companies, and many special agreements among manufacturers of dyestuffs, plastics, explosives and other chemical products".

According to Mr. Edwards, "Two of the largest companies in the United States, which we think of as separate, were linked with the chemical monopoly in England and with the

chemical monopoly in Germany - and so with each other. This gigantic monopoly parceled out the world market among the companies involved.

3. The Combine - This is a form of control through corporate ownership and contracts of varied kinds. It is sometimes more intricate and difficult to trace than even the licensing agreements. Often the two are combined, as where corporations that have exchanged patents own subsidiaries in common.<sup>15</sup>

One can cite the cartels that are held together by specific governmental support, or by international commodity agreements, like the rubber cartel.

Before the war, the chief source of natural rubber, of which the United States was the greatest consumer, was in British Malaya and the Dutch East Indies. Soon after the First World War, the British interests attempted to increase prices by restricting output through the Stevenson Plan, which passed the British legislature. The government's interest was not simply to push the commercial fortunes of the private owners, but also to help remedy the weakness in sterling exchange by extracting more silver dollars from American purchases. The plan was successful for a while in spite of American opposition, but eventually broke down because of the competition from rubber-growing regions that were not included in it. It was succeeded in the early depression years by the International Rubber Regulating Committee, which included the United Kingdom, India, Siam, France and the Netherlands. This also rested on support by the governments concerned.<sup>16</sup>

Now the United States has equipment for turning out synthetic rubber capable of fulfilling its normal needs. If costs can be brought low enough, we shall not have to buy much from the former producers unless

15. Ibid, pg. 175

16. Ibid, pg. 150



we wish to do so. But what, in that case, would happen not only to the British, Dutch, and other business interests concerned, but to the natives engaged in rubber production, the purchasing power of the international balance of payments? The American interests might join the international cartel but then what would happen to the rubber consumers? Obviously, there is need for an international rubber agreement in which consumers will be adequately represented.

Tin, nickel, and other raw materials present similar problems. Complex as each of these problems is, no satisfactory solution of any one of them can be achieved if each is regarded as existing in a water tight compartment. In some cases a given nature is a consumer, in others its chief interest may be that of a producer.

The importance of any plan for governing the activities of men is partly dependent on its extent. Geographically, cartels cover the whole world. Not every one includes every country, for there are some circumstances which necessitate omissions. For instance, it is useless to try to exercise the power of an international monopoly in a country where the domestic business in question is not subject to monopoly in one way or another.<sup>17</sup>

Cartels are important also in their extent over industries and products. Any natural product of mining or agriculture, the ownership of which can be concentrated, is subject to monopoly. Any process of manufacture or any fabricated product which can be held under patents can be monopolized. The degree of monopoly conferred by the necessity of heavy investments to enter an industry, as in steel, permits cartelization, and even though the industry which directly makes the product we buy is competitive, the chances are 99 in 100 that its costs contain a tribute to the cartel empire. Farmers compete with one another except insofar as the

17. Wendell Berge, Challenge of Cartels, pg. 3



farm bloc in Congress holds up minimum prices, but farmers have to buy cartelized fertilizer, agricultural equipment, and many other things that must be had to run a farm.<sup>18</sup>

There is probably no more competitive industry in the United States than those which make textiles and clothing, but they have to buy cartelized dyes and other chemicals, and they need their share of rubber and other general necessities out of which cartels make their profit and build their power, not to mention patent-controlled rayon and nylon.

How can we be sure that the rest of the world is irrevocable committed to the cartel system? Who do we mean by the rest of the world? Do we mean China and South America? Do we mean Canada, Australia and the far-flung dominions and colonies of the British Empire, or do we just mean Europe? If we just mean Europe, who do we mean in Europe? Do we mean the democratic forces, the underground movements of continental Europe? Certainly not. There is certainly no evidence that the democratic forces in the other occupied countries desire a return to the pre-war private cartel system.

As for Germany, before the war it was one of the chief exponents of the cartel system. But surely we are not going to listen to the voices of the German cartelists again. Presumably, one of our principal objects in seeking total victory is to get ourselves in a position to destroy the aggressive industrial power of Germany and to provide effective measures to prevent the German industrialists from again threatening the peace of the world. If we cannot find democratic forces in Germany that we can support in reconstituting Germany so that it will not again menace peace, we will probably have to impose Allied rule on German industry for such length of time as it is necessary to stamp out the forces that produced the war. So there would seem to be no reason why we must listen to the German industrialists, although it has been rumored that some of them are already seeking to make their voices heard and are receiving a friendly ear from some of our own industrialists.<sup>19</sup>

18. Thurman W. Arnold, Cartels or Free Enterprise?, pg. 5

19. Wendell Berge, What Substitute for Private International Cartels?, pg. 8

So continental Europe certainly is not in a position to compel us to bow to the cartel system as an inevitability in the modern world.

As for the countries in the Orient and in South and Central America, with the exception of Japan, to which the same considerations apply as apply to Germany, these countries never have been addicted to the cartel system, although they have frequently been the victim of the cartels organized in Europe and America. There is no problem of having to appease our neighbors in the Orient or in South and Central America.

Sentiment in Canada, Australia and New Zealand, and the British colonies in South Africa seems to be largely anti-cartel. Like in the United States, there are individual differences of opinion in the dominions and colonies of the British Empire, but a careful perusal of available reports of sentiment as expressed in current magazines, editorials and newspaper columns indicates that the sentiment in these parts of the world is predominately anti-cartel.



## RESULTS OF CARTELS

The principal reason for any monopolistic device is to fix prices higher than those which would be obtained without it. This fact is sometimes masked by price reductions made by the cartels. The price reduction may result from lowering costs. It may be the result of trying to eliminate a competitor or to maintain sales in competition with a different kind of product which is not controlled. Of course, the cartel is after the maximum profit and this may be best achieved by selling more products at a lower price. In all these cases the lower price is a result of an administration decision rather than from the impersonal forces of the market, and in most cases the resulting price is higher than if it had been on the open market and subject to free competition. Cartels charge at least as much as the market will bear.

Consumers also suffer because of the lack of competition, in that the absence of competition deprives the maker of any incentive to improve quality. Sometimes he actually reduces quality to get a larger volume of sales or to protect another product in which he has an interest. For instance, Corwin Edwards charges that General Electric reduced the life of lamp bulbs and discouraged bulb testing by purchasers. The lamp manufacturers have also been reluctant to introduce the much more economical and longer lived fluorescent lamps for household use.

Similar to the lack of improvement or actual deterioration of products is the stifling lack of technological advance in the matter of new products. An enormous amount of research is being done by companies belonging to cartels. Another result of monopolies is overproduction and underconsumption, an unbalanced exchange between organized industry which is restricting production, and farmers and small businessmen who are unable to restrict production. Farm prices fall and industrial prices rise. The farmer cannot buy enough to keep the factories running. Labor is laid off, thus cutting



down buying power still further. Goods pile up because they cannot be distributed at the artificial level set by the cartels. Thus we get overproduction of goods in the face of actual need for them.<sup>20</sup>

Domestic cartels try also to control foreign markets so that the nation can get rid of this so-called overproduction. At the first period of this growth of these international cartels, the ideal of free enterprise is exalted. Later, when it becomes apparent that the market is no longer free, a new political philosophy arises, justifying centralized planning of production and distribution.

The defenders of cartels insist that the alternative is "cut-throat competition, progressive deterioration of agriculture, disastrous declines in prices, foreclosures of mortgages and ruin".<sup>21</sup> This same idea lay behind the establishment of the N. R. A. in 1933. At that time banks and financial institutions were failing because of falling prices. Today the danger of deflation is gone. The war has created the danger of inflation. Therefore, the justification of delegating to private groups the power to strangle production at home and abroad today must rest on a different basis than the N. R. A.

Many of the aforementioned problems will not be solved at one stroke nor as quickly as we may wish, but there is every reason for confidence that there are no insoluble situations, and no basic reasons why the flexibility and adaptability of this country cannot cope with the conditions of peace as ably as with the necessities of war. Nor are there any conditions of such magnitude as to cause us to abandon the democratic concepts which have been affirmed and strengthened by events. On the contrary, we have every reason for expecting that the accomplishments ahead will prove in repeated performance the principles upon which the national life is founded.

After years of war, sacrifice, and toil dedicated to the maintenance of freedom among nations, the American people can now take up again the

20. George Soule, America's Stake in Britain's Future, pg. 175

21. J. Anton De Haas, Economic Peace Through Private Agreements, (Winter, 1944) pg. 22



ways of peaceful living. It is characteristic of Americans always to feel that the future beckons. They recognize that the future may hold risks, and that new economic problems will demand new answers.

It seems clear that America can never have a foreign policy based on the principles of democracy and international goodwill as long as international trade is dominated by cartels. It does not seem possible that the Atlantic Charter, the Good Neighbor Policy, and the reciprocal trade pacts can effectively prevail if the special privileges of cartels dominate trade and politics in the postwar world.

In many respects cartels form one of the central issues of the present period. The greatest threat to our success in achieving full production and full employment at home and friendly cooperation with other nations abroad is the philosophy and practice of privilege embodied in cartels. If there is to be a free and productive economy in the United States, or a free exchange of goods in the world markets, the power of cartels must be broken.

It is essential to understand that cartels are, in effect, private economic governments which seek to divide and rule world industry on the basis of economic privilege. If cartels are successful in gaining a foothold in the postwar period, it will almost be impossible for this nation to maintain a high level of peacetime production or to cooperate in the reconstruction of world trade.

The conduct of cartels in the period before and during the war has been one of the tragic pages of our history. The shortages of aluminum and magnesium resulting from cartel restrictions forced us to strip the kitchens of America and scar our public squares with scrap piles. The scarcity of rubber is a never-ending threat to our productive effort. Our armed forces plead with us to send them binoculars. The lack of vital drugs and medicines has jeopardized our men fighting in fever stricken areas. In fact, almost wherever there was a cartel there was a shortage.



But cartels have an even more serious aspect. These private governments threaten the sovereignty of domestic nations. The political implications of cartel activity threaten to subvert future national public policy of the United States.

There is a close relation between a country's economic policies and its foreign relations. It is generally recognized now that economic freedom cannot be attained at home if private groups are permitted to acquire monopoly power over industry. Likewise, it must be equally recognized that friendship and cooperation between this country and other nations cannot be established without the free exchange of goods and services. Reciprocal trade treaties and good neighbor policies can have little effect if private cartels can shut off American markets to foreign producers or prevent American producers from selling abroad.

The Good Neighbor Policy is one of the fundamental principles of our relations with Latin America. While our government was bending every effort to bring about the conditions of sound and mutually advantageous cooperation, cartels were systematically undermining these efforts. Latin America was turned over by private cartels as a colony to hostile foreign interests. By giving German industry virtually a free hand in Latin America, and by agreeing not to compete, American cartelists made possible the creation of a German sphere of influence. Nazi propoganda, espionage, and subversive activity all stem directly from this unhampered German penetration. When South Americans sought to purchase drugs, metals, and munitions from the United States, private cartel treaties had already provided that American concerns could not engage in this trade. Not only was the healthy development of South American trade and industry checked, but even today we are trying to overcome the bad taste in the mouths of South Americans that these activities of cartels have caused.<sup>22</sup>

22. J. Anton De Haas, Ibid, pg. 26



We have long cherished the principle of open covenants openly arrived at. In fact, this policy is an essential part of America's conduct of foreign affairs. Every treaty commitment made by this country is debated publicly by the people's representatives. Without the agreement of 2/3 of the Senate and the agreement of the President, no treaty can be made, yet agreements have been made in international industry affecting both the American economy and our foreign policy which have been secretly contrived. The Americans have no vote but they bear the burden of these private treaties. How seriously and how gravely our foreign policy was undermined is indicated by a few examples.

In February of 1941, when Britain was in the most critical peril, a cartel agreement decreed that a large American munitions manufacturer could not supply certain explosives to the British. This would have violated the commitment of the American cartelists to its German partner.

In 1935, after Hitler had announced his intentions, England and France sought to obtain desperately needed military optical goods from this country. A cartel agreement decreed that England and France were territory to be supplied by German interests and the sale was prohibited.

Prior to the war, the shipment of vitally needed magnesium from this country to Great Britain was restricted by cartel agreements. Examples like these could be multiplied indefinitely if the facts were only known.

Make no mistake - the war has not interfered with cartel plans. Cartel agreements invariably provide for the contingency of war. Long before the war cartels worked out a "modus vivendi" - a method of continued existence - for they felt that their relations must be preserved, war or no war. Thus we find American and British cartelists agreeing to preserve the German position in Latin American markets during the war. Agreements between the cartel members of countries at war provided for the resumption of same at the close of hostilities. In case legislation or government action interfere, then they will cooperate to adapt their relations, as one agreement states, "in the spirit of the present agreements".



Therefore, the necessity for vigorous action in keeping open the channels of trade becomes apparent when we consider that those who create cartels hold themselves above the law or seek to control legislation and government policy in the many countries where they operate.<sup>23</sup>

An economic world dominated by cartels is fertile ground for the seeds of international suspicion, distrust, and intrigue. The aggravation of international differences which might otherwise be overcome tends to increase when public policy of government is annulled by the conduct of powerful industrial groups acting secretly.

There are today some voices advocating the rationalization of our economic relations with the rest of the world, either according to some system of cartels controlled by government or according to some plan for complete governmental direction of all foreign trade. Under either design for monopoly free enterprise could not survive.

For the sake of our military security and for the sake of our economic welfare we cannot permit American firms to enter into agreements which divide the world market, which exclude opportunity for new enterprise, which expose the independent businessman to the threat of extermination and which lead ultimately to mass unemployment and depression.

It must be recognized that the concentration of economic power which developed prior to the war had once more been accelerated and extended under the pressure of war needs. Recently a sub-committee of the Senate Committee on Education and Labor reported that:

Throughout the first two and one-half years of our effort, 100 of America's largest corporations have received 75% of all war contracts by dollar volume. To them has gone the great bulk of new plants built at government expense, over \$14,000,000,000. America, a land of giant corporations before the war, will emerge from this war with a larger share of its vastly expanded economy controlled by a smaller number of firms.<sup>24</sup>

It is undoubtedly true that some further extension of the concentration of economic power for the purpose of expediting and expanding war production

23. Wendell Berge, What Shall We Do About Cartels in the Postwar Period? pg. 5

24. Wendell Berge, Cartels and American Economic Life, (Boston, 1945), pg. 7

was unavoidable. However that may be, it is clear that in the processes of reconvertng American industry to peacetime production care and resourcefulness will be needed to reverse this trend. Our program for reconversion must make a democratic competitive economy a daily reality.



## WHAT SHOULD BE DONE WITH CARTELS

The problem of keeping a competitive economy is among the most vital concerns confronting business, labor, and government in the postwar period. Businessmen, in particular, must realize that if the system of free private enterprise is to survive, it must prove equal to a momentous task. Another major depression in this country, with attendant widespread insecurity, loss of world trade, and the lurking threat of international friction and war will toll all the bells for the passing of the system of economic liberalism forever.

Those who believe in free enterprise understand that to meet this test effectively the role of business must be clearly and accurately assessed. In concrete terms, it is essential that industry assume a venturesome lead in promoting peacetime economic activity. This means that industry must, by its initiative, create new fields of production, new goods and services, new jobs and occupations.

We know that the capacity to achieve these goals exists. Our potential productivity has been demonstrated. Our labor force will be, in consequence of its training in armed forces and industry alike, the most highly skilled which we have ever had. Our industrial managers and our progressive group of businessmen have glimpsed new possibilities of markets, methods, and products during the war years. A whole new group of "dynamic capitalists" has come to the fore, not only revitalizing many old industries, but expressing determination to enter new fields and open up new lines of production. This group, including many recent arrivals, can count within its ranks a good many representatives of the old line industrial interests, who have come to realize that progressive, constructive change, a venturesome viewpoint, and a willingness to enter into competition and promote a young industry benefit all sectors of the economy.

In the United States the choice we make between economic philosophies may well decide the future of democracy. If we extend governmental planning



to all branches of economic life, or if we permit private planning to freeze the pattern of industrial concentration and control, we shall surrender the chance to attain economic democracy. Once economic freedom has been eliminated, there is no turning back, and democracy itself becomes a shadow without substance.

We stand on the threshold of some of the greater technical and scientific developments of modern history. Light metals, vitamins, television, new chemical and electrical techniques are all in their infancy. Air transport, housing developments, and the improvement of national health will provide an insistent demand for the output of these new materials. The slums of country and of city alike can become an unpleasant memory if new materials for housing are made available in a competitive market. The most provincial area can possess the advantages of the great metropolis through radio, television, and electric power.

This future will not be won without effort. If scientific development and economic progress is nullified by a system of cartels and monopolies or by rigid government control, we shall delay and may lose the opportunities which will be opened to us at the end of the war. If discovery is to be translated into a more abundant life, the way to enterprise must be guarded as we guard our civil liberties.

What can be done to keep our economy from following twin mirages of "self governing" monopoly and government control of business? Considered as a question of policy and as a program, certain principles emerge from the confusion which surrounds our current economic thinking. It seems to me that we should move in the following directions:

First. The present controls of government which have regimented and welded us into a wartime economy must be removed as soon as possible after the peace. To delay beyond the period of necessity is to invite their perpetuation.



The American people are well aware of the danger represented by a cartelized economy in which monopolies and power hungry groups seek to control economic and political life on a basis of privilege. The experience of Germany in recent years demonstrates all too clearly the vicious results of a union between cartels and paternalistic government. The keynote of a monopolized economy and a feudalistic political regime becomes suppression. No competition is permitted. Those who exercise their initiative are considered bootleggers, chiselers, and finally become outlaws. Once competition is eliminated, there is only a short step to the suppression of free speech and the right to criticize. A society so constituted can endure only by a reign of forces. The Nazis achieved power by terrorism and could maintain themselves in power only by military aggression.

It is in the postwar world that American capitalism, in fact, democracy itself, will meet its most serious challenge. To win the war we had to give up temporarily many of our fundamental economic liberties. It is also necessary that during this transitional period of getting back to peacetime production certain controls are needed. In general, it seems that necessity continues only as long as there are vital shortages and only in the fields where shortage exists. When scarce materials cease to be scarce, there would seem, as a general rule, to be no further need for transitional controls.

Second. The new technology developed by this war must be made available to peacetime industry. A free technology is a key to progress. Inventions developed by public funds in this war must not become the private preserves of monopoly groups. The results of this research must be made available to returning servicemen and to youth generally, so that free enterprise can be more than a pious hope to them. If necessary, the government should develop its own industrial research facilities, as it has done so extensively and so fruitfully for agriculture, and make the results available to all, including small and large businessmen.



Third. Plants constructed in wartime must not be ploughed under in peacetime. The large productive capacities which we have created must be utilized to advance our standard of living and maintain our national income. This will be absolutely necessary if we are to maintain a national income which can carry a national debt load of from two to three hundred billion dollars, if we are to find jobs for the returning servicemen, and if unemployment and sectional dislocation is to be avoided in the transition from war to peace. The small businessmen must receive primary consideration in the disposition of government plans and surplus war materials.

Fourth. Credit must be made available to small business. Small business unavoidably has found the going rough during this war. The postwar period will find it without the reserves available to larger units. Since small business is in many respects the most vital part of our economy, we must see that credit is made available to it on liberal terms.

Fifth. Taxation incentives should be given for the launching of new enterprises and for expansion of existing plants. Taxation must not discourage venture capital and productive investment. We must recognize that a steady stream of new investment is necessary to an expanding economy.

Sixth. Internal trade barriers among the states and between sections must be removed. The discriminatory freight rates which have burdened the South and the West and hampered their development must be eliminated, as must other restrictive transportation practices, and also certain state legislation which thwarts the policy of Congress in fostering the freest passage of goods in interstate commerce.

Seventh. International trade should be encouraged. The Reciprocal Trade Agreements policy of our government should be promoted. Tariff barriers should be lowered or removed wherever possible. Cartels, which are, in effect, privately erected tariff barriers, are illegal, and must be completely abolished. World wide trade will not only make people in



every corner of the earth richer, but will give the people everywhere a vested interest in maintaining peace.

Eighth. Patents must be made to promote the advance of science and the useful arts. We cannot tolerate the use of patents to block off and fence in whole sectors of our technology. At the same time patent protection must act as an incentive to the individual inventor and the businessman. The patent system should remain, but its abuses should be uprooted. Research developed in Germany for the purpose of making war on us should be made available for general use by the people of the United States.

Ninth. Labor must have the right to collective bargaining. In its own interest it should not attempt to prevent the development and introduction of new inventions and techniques or to join with industrial groups to fix prices and production quotas. In the long run, labor is the principal beneficiary of technological progress because as its productivity increases its standard of living rises. Social security and unemployment insurance programs, if wisely conceived and administered, are not only consistent with capitalism but will promote and assist its successful functioning. They should be encouraged.

Tenth. The government should properly develop public works and projects of the TVA variety, not only as emergency measures, but to provide additional opportunities for free private enterprise. The TVA has opened up an entire region for industrial investment and development. Business ventures of every type are now flourishing in that area. The continuation of the policy represented by TVA and similar long-range public works projects offers constructive support by government to private initiative and full employment.<sup>25</sup>

Finally, there should be vigorous enforcement of the antitrust laws. It is equally to the interest of the business man, the worker, and the consumer to see that these acts are applied, no matter what political party is

25. Wendell Berge, The Future of American Capitalism, pp. 10-12



in power. This series of acts reflects the free enterprise spirit of America. This support should be more than lip service. In its own interests, business should insist on the enforcement of the antitrust laws.

America now must face the struggle to create the free markets of industrial opportunity which has only been postponed during the war. Every problem which faced us is again on our doorstep. Today we are, in the most part, ignoring these problems.

The American public seems to want the risk taken out of their economic lives. Labor wants the government to guarantee jobs, and to see that a floor is set for wages. Farmers want governmental control. They demand that the government keep up farm prices by subsidy if necessary.

The average American is puzzled by this picture and so they want to be assured of old age pensions, unemployment relief and medical care supplied by the government. But America can't build a dynamic and expanding economy out of cushions against insecurity. Although we do have these security agencies, most of the Americans will not be content with the minimum standard of living set by the government, no matter how high it is. Undoubtedly, further advancement will be made incited by the fear of poverty and want.

It would seem that this desire for security is a phase through which the American people seem to be passing. Maybe it is just that the people fear that a depression will follow this boom of wartime, but a controlled economy would be just what the cartels would like. The American people do not want an economy dominated by cartels.

International cartels cannot operate within countries where monopolies cannot control the domestic market. The first attack should, therefore, be by national action within the United States, as well as within each of the other nations where cartels flourish. The following types of action are suggested in America's Stake in Britain's Future.



1. Devise better means of regulation. Regulation will never be effective as long as it must be dependent on specific legislation and actions in courts. It must be carried on administratively and must be flexible enough to meet new conditions as they arise. The Federal Trade Commission was devised for this purpose but it has not lived up to the hopes of its designers. Indeed, it has virtually given up any attempt to solve the monopoly problem and has devoted its energies largely to preventing the "unfair competition" of misleading brands and labels.

It has been suggested that every business engaged in international trade - and perhaps those that are engaged in interstate trade - be compelled to incorporate federally. Federal corporate charters would, by law, be granted only on certain general conditions drafted in the public interest and would be subject to renewal at stated periods. Such conditions might embody the principle that the corporation would have no right to engage in any activity which would compromise the fullest production and employment permitted by the current level of technology, the availability of materials, and the labor supply. A commission would be empowered to see that corporate practice lived up to these conditions in detail, to give full publicity to corporate affairs, and possibly to withdraw the corporate charter, if the corporation in question was persistently and knowingly guilty of violations.

If litigation arose in connection with this kind of regulation, the burden of proof would be on the corporation instead of on the government. The corporation would have to appeal to the courts to upset an administrative action, rather than the government appealing to the courts to forbid a corporate action.

2. Break the corporate monopoly on patents. Many of the important patents on which cartels now base their power are of German origin. Most of these have been seized by the government and are now in the hands of the



Alien Property Custodian. Former Attorney General Biddle suggested that these patents should not be returned to the German owners, but be held for use in the public interest. After the last war we did not return German patents but disposed of them to private companies, some of whom secretly represented the German owners, and most of whom used them (as they assumed the right to do under the patent laws) for monopolistic gain. Mr. Biddle's suggestion is a good one. We do not see how it can be executed unless the government retains the patents and licenses them to all on equal terms.

This, however, is only a half measure, since it does not bear on future patents, and any concerns which do not hold the American patents that complement the German ones may hesitate to buck the great power of the existing monopolies. Some revision of the patent laws is necessary which, if possible, will retain the incentive to inventors while preventing use of patents to restrain trade or restrict output.

In addition, a suggestion of possibly great benefit is to set up a public research organization with ample funds, dedicated to making inventions and improvements which may be employed by anybody. This would not forbid individual ingenuity and inventiveness, but it would provide a public competition for the great private research organizations from which many industrial improvements now stem, and which permit monopolistic exploitation of the brains of scientists and technicians.

3. Use the public power to compete. In numerous important industries where monopoly practices prevail, the government has built for war purposes and now owns great productive facilities. The corporations, many of which are operating these plants as contractors, are exercising strong influence to have the plants either closed down or sold out to private interests as quickly as possible. They have been in the main supported by the Barauch report. As suggested by Harlow S. Person in



the "New Republic", the government should retain whatever plants are necessary for the purpose of ensuring full employment and fair prices. Public competition has been effectual in Sweden and has shown what it can do in the United States in the TVA. The government need not operate all the plants it owns; it can rent them to private contractors, but under such conditions that practices which are a detriment to the public shall not prevail.

5. Install democratic planning, Most important of all, the government should not leave the planning function entirely to those who operate for private gain. It should not be content with negative and regulatory measures, but should step in to supervise the constructive job which monopolists say and may think they are doing in rationalizing production, economizing resources, and stabilizing the economy. The main trouble with their activities is not that they attempt these things but that they stabilize on a level of prices higher than the technical arts would permit, and on a level of output lower than our productive resources, including the labor supply, would justify.

The government need not do this job in a bureaucratic or dictatorial fashion, but it is peculiarly fitted to mobilize the common interest of business, labor, agriculture, and consumers in full production and avoidance of depression. It can do this by calling together representatives of all the main interest groups, to supervise the preparation of a production program based on the needs of consumers and large enough to utilize our full capacity. This program should be continually revised as demands change in the retail markets and as productivity increases. The performance of industry in meeting it should be checked, and measures should be taken wherever necessary to increase production.

Such a program would be a guide for many of the activities outlined. It would, for instance, provide standards for the examination of the practices of federally incorporated companies, and it would indicate how much governmental competition is desirable and in what lines. It would also be the criterion



of a compensatory fiscal policy on the part of the government, or for a public works program to stabilize the construction industry.

In spite of any such measures which may be taken within individual nations, international cartels may persist and continue to exploit consumers, even within countries which have themselves overcome the evils of monopoly, if these countries are not large producers of the products controlled by the cartels. Thus, the United States is dependent upon foreign sources for tin, and could not, merely by domestic legislation, protect itself against the tin cartel. Other nations are much less independent economically than we.

6. Establish a World Trade Board. There have been numerous suggestions for an international agency to help stabilize world trade on an active basis and guarantee "freedom of access to raw materials". If this is to mean anything, it must at least mean the curbing of international monopolies.<sup>26</sup>

If it is difficult to abolish monopoly by national legislation, it will be still more difficult to do so on an international scale, where there is no government having sovereign powers, and there is not likely to be any for many years. By international agreement, however, we can create an agency which can investigate and give publicity to any combination which fixes prices or limits output, and by the same means we can, in many cases, provide representation for the individual consumers, or for consuming nations, in such decisions. An agreement of this nature regarding coffee now exists between the United States and numerous Latin American countries. If the world board should be convinced that no limitation was desirable for any particular products, or that the consumers were under-represented or flouted in its decisions, it could do much to stimulate new sources of supply. At any rate, it would not leave cartel transactions in the no man's land they now occupy, free to carry

26. George Soule, Ibid, pp. 181-186



on in almost complete privacy and immunity.

An international trade board would have to maintain close relationships with other world-wide economic agencies, such as the International Bank for Reconstruction and Development, the International Food and Agriculture Organization, any machinery which is established to stabilize exchanges, and the agencies having to do with labor and standards of living. It might even work out a method of planning multilateral trade which could help to safeguard international balances of payments better than the exclusive bilateralism that prevailed before the war and would at the same time encourage world-wide expansion of production and consumption.

Monopoly is the greatest threat to the survival of true capitalism. For this reason it is important to affirm that capitalism does not mean - in fact, it rejects - the right of private monopoly to stifle enterprise. Vested monopoly interests must not bar the emergence of new businesses. It is not, in fact, consistent with the maintenance of a capitalistic system for either government or private monopoly to prevent the development of new industries in order to protect the old. Nor will our system work if we permit combinations to dominate the market, to fix prices, or to restrict production. Basing-point systems, restrictive patent pools, closed-market agreements, cartel agreements which cut off free trade among nations, tariffs which cater to special privilege, feather-bedding rules by labor unions - all are anti-capitalistic devices. They represent the most serious threat to a free capitalistic economy. No other system for organizing production places such a premium on flexibility or provides such stimulus to the introduction of new ideas, new industries, new goods and services. No other system offers such incentives to efficiency or emphasizes so completely the concept of service to the public.

The scope and magnitude of America's achievement in war production is an unmistakable index of our capacity for growth. The tremendous energy and determination which inspired and made possible the fulfillment of our war needs are equally available for the tasks of peace. It is the joint problem of government, industry and labor to unleash the incentives and to

keep clearly in mind the goals which will maintain the levels of employment and production attained during war. There is every reason to believe that this nation can surpass in time of peace its accomplishments under the pressure of grim necessity.



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